

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Salem Township</u>	County <u>Washtenaw</u>
Audit Date <u>March 31, 2004</u>	Opinion Date <u>November 4, 2004</u>	Date Accountant Report Submitted To State: <u>December 30, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address <u>350 South Main Street, Suite 200</u>	City <u>Ann Arbor</u>	State <u>MI</u>	ZIP <u>48104</u>
Accountant Signature 			

**Salem Township
Washtenaw County, Michigan**

**Financial Report
with Additional Information
March 31, 2004**

Salem Township

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Independent Auditor's Report

To the Board of Trustees
Salem Township
Washtenaw County, Michigan

We have audited the accompanying general purpose financial statements of Salem Township as of March 31, 2004 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of Salem Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Salem Township as of March 31, 2004 and the results of its operations and cash flows of its Enterprise Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

November 4, 2004

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Salem Township

	Governmental Fund Type - General (General Fund)	Proprietary Fund Type - Enterprise (Sewer Fund)	Fiduciary Fund Type - Agency (Escrow and Tax Funds)
Assets			
Cash and investments (Note 2)	\$ 2,909,091	\$ 607,347	\$ 180,657
Accounts receivable:			
Landfill	95,974	-	-
Customers	-	20,924	-
Special assessments	-	1,445,386	-
Other	50,466	-	-
Prepaid insurance	20,191	-	-
Due from Escrow Agency Fund	7,571	-	-
Due from Sewer Fund	81,109	-	-
Capital assets (Note 3)	-	2,666,806	-
	<u>-</u>	<u>2,666,806</u>	<u>-</u>
Total assets	\$ 3,164,402	\$ 4,740,463	\$ 180,657
Liabilities and Fund Equity			
Liabilities			
Accounts payable	\$ 65,869	\$ -	\$ -
Due to General Fund	-	81,109	7,571
Due to other governmental units	-	-	87
Long-term debt (Note 9)	-	2,510,000	-
Refundable deposits	-	-	172,999
Other liabilities	1,485	18,323	-
	<u>67,354</u>	<u>2,609,432</u>	<u>180,657</u>
Total liabilities	67,354	2,609,432	180,657
Fund Equity			
Investment in general fixed assets	-	-	-
Contributed capital (Note 10)	-	2,327,540	-
Accumulated deficit	-	(196,509)	-
Fund balances:			
Reserved for noncurrent Sewer Fund receivable	71,637	-	-
Reserved for construction code activities (Note 6)	19,242	-	-
Unreserved:			
Designated for subsequent year's expenditures	-	-	-
Undesignated	3,006,169	-	-
	<u>3,097,048</u>	<u>2,131,031</u>	<u>-</u>
Total fund equity	3,097,048	2,131,031	-
Total liabilities and fund equity	\$ 3,164,402	\$ 4,740,463	\$ 180,657

Combined Balance Sheet
All Fund Types and Account Group
March 31, 2004

Account Group - General Fixed Assets	Total Primary Government (Memorandum Only)	
	2004	2003
\$ -	\$ 3,697,095	\$ 4,034,693
-	95,974	76,921
-	20,924	23,154
-	1,445,386	1,541,375
-	50,466	56,978
-	20,191	-
-	7,571	7,571
-	81,109	90,606
3,013,565	5,680,371	5,742,141
\$ 3,013,565	\$ 11,099,087	\$ 11,573,439
\$ -	\$ 65,869	\$ 133,655
-	88,680	98,177
-	87	3,187
-	2,510,000	2,670,000
-	172,999	225,856
-	19,808	14,230
-	2,857,443	3,145,105
3,013,565	3,013,565	3,006,767
-	2,327,540	2,272,700
-	(196,509)	(157,984)
-	71,637	86,733
-	19,242	1,809
-	-	56,359
-	3,006,169	3,161,950
3,013,565	8,241,644	8,428,334
\$ 3,013,565	\$ 11,099,087	\$ 11,573,439

Salem Township

Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund

	Year Ended March 31			
	2004		2003	
	Budget	Actual	Variance Favorable (Unfavorable)	Actual (Memorandum Only)
Revenue				
Licenses and permits	\$ 95,500	\$ 165,541	\$ 70,041	\$ 96,123
State sources	415,000	368,849	(46,151)	391,116
Landfill/Host community fees (Note 5):				
Host fees	402,000	414,135	12,135	487,687
Compost host fees	35,000	51,346	16,346	34,219
Total landfill/host community fees	437,000	465,481	28,481	521,906
Local sources	19,200	24,465	5,265	17,225
Interest	45,000	31,603	(13,397)	51,007
Other revenue	46,350	70,860	24,510	78,535
Total revenue	1,058,050	1,126,799	68,749	1,155,912
Expenditures				
General government	1,036,112	1,002,261	33,851	857,294
Public safety	293,719	288,738	4,981	284,485
Public works - Highways and streets	33,000	45,593	(12,593)	205,777
Capital improvements	100	10	90	239,838
Total expenditures	1,362,931	1,336,602	26,329	1,587,394
Excess of Expenditures Over Revenue	(304,881)	(209,803)	95,078	(431,482)
Fund Balance - Beginning of year	3,306,851	3,306,851	-	3,738,333
Fund Balance - End of year	<u>\$ 3,001,970</u>	<u>\$ 3,097,048</u>	<u>\$ 95,078</u>	<u>\$ 3,306,851</u>

Salem Township

Statement of Revenue, Expenses, and Changes in Accumulated Deficit - Sewer Fund Year Ended March 31, 2004

	2004	2003 (Memorandum Only)
Operating Revenue		
Sewer disposal	\$ 88,751	\$ 90,982
Other	-	5,710
Total operating revenue	88,751	96,692
Operating Expenses		
Supplies	1,245	1,410
Professional fees - Maintenance	41,515	52,280
Utilities	26,632	15,390
Depreciation	68,568	68,568
Total operating expenses	137,960	137,648
Operating Loss	(49,209)	(40,956)
Nonoperating Revenue (Expense)		
Interest income	87,286	58,053
Interest expense	(86,602)	(67,893)
Total nonoperating revenue (expense)	684	(9,840)
Net Loss	(48,525)	(50,796)
Add Back Depreciation on Capital Assets Acquired by Federal Grants that Reduces Contributed Capital	10,000	10,000
Increase in Accumulated Deficit	(38,525)	(40,796)
Accumulated Deficit - Beginning of year	(157,984)	(117,188)
Accumulated Deficit - End of year	<u>\$ (196,509)</u>	<u>\$ (157,984)</u>

Salem Township

Statement of Cash Flows - Sewer Fund Year Ended March 31, 2004

	2004	2003 (Memorandum Only)
Cash Flows from Operating Activities		
Operating loss	\$ (49,209)	\$ (40,956)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	68,568	68,568
Changes in assets and liabilities:		
Receivables	2,230	(3,945)
Accounts payable and other liabilities	6,486	9,237
	<u>28,075</u>	<u>32,904</u>
Net cash provided by operating activities	28,075	32,904
Cash Flows from Noncapital Financing Activities - Repayments to other funds	(9,497)	(144,884)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments - Principal and interest	183,276	122,316
Proceeds from long-term debt	-	1,090,000
Construction of sewer expansion	-	(399,107)
Collection of connection fees	64,840	36,680
Principal and interest paid on long-term debt	(246,602)	(162,893)
	<u>1,514</u>	<u>686,996</u>
Net cash provided by capital and related financing activities	1,514	686,996
Net Increase in Cash and Cash Equivalents	20,092	575,016
Cash and Cash Equivalents - Beginning of year	<u>587,255</u>	<u>12,239</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 607,347</u></u>	<u><u>\$ 587,255</u></u>

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, and financing activities during the year ended March 31, 2004.

Note I - Summary of Significant Accounting Policies

The accounting policies of Salem Township (the "Township") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Township is governed by an elected seven-member Board of Trustees. As required by accounting principles generally accepted in the United States of America, these financial statements present Salem Township and its component units; however, in accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fund Accounting

The accounts of the Township are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Fund

General Fund - The General Fund contains the records of the ordinary activities of the Township that are not accounted for in another fund. General Fund activities are financed by revenue from the landfill/host community fees, State-shared revenue, and other sources.

Proprietary Fund

Enterprise Funds - Enterprise Funds are used to account for results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Township as an agent for individuals, organizations, other governments, or other funds. These include the Tax Collection, Trust and Agency, and Escrow Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note I - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The accrual basis of accounting is used by the proprietary fund. The General Fund (a governmental fund) and the Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.
- b. Noncurrent receivables are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end.
- c. Payments for inventorable types of supplies are recorded as expenditures at the time of purchase.
- d. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Fixed Assets - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

The General Fixed Assets Account Group is not a fund and does not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the proprietary fund are accounted for in that fund. Depreciation on such fixed assets is charged as an expense against operations of the proprietary fund on a straight-line basis.

Investments - Investments are recorded at fair value based on quoted market prices.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account group and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Deposits and Investments

The Township's deposits and investments at March 31, 2004 are included on the balance sheet as cash and investments and are further classified in accordance with GASB Statement No. 3 as follows:

Bank deposits (checking and savings accounts)	\$ 807,251
Bank investment pools	2,317,118
Interlocal agreement (MBIA-CLASS)	572,026
Petty cash or cash on hand	<u>700</u>
Total cash and investments	<u>\$ 3,697,095</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$867,893. Of that amount, approximately \$400,000 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates the financial institutions with which it deposits Township funds and assesses the level of risk of the institutions; only those institutions with an acceptable estimated risk level are used as depositories.

Salem Township

Notes to Financial Statements March 31, 2004

Note 2 - Deposits and Investments (Continued)

Investments

The Township is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, investments in bank investment pools and interlocal agreement (MBIA-CLASS) are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Township believes that the investments in these funds comply with the investment authority noted above.

The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Note 3 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance April 1, 2003	Additions	Deletions	Balance March 31, 2004
Land - Curtis Road	\$ 504,477	\$ -	\$ -	\$ 504,477
Land - Godfredson Road	10,043	-	-	10,043
Land - Dickerson Street	32,000	-	-	32,000
Land - M-14	21,500	-	-	21,500
Dickerson property	439,500	-	-	439,500
Township hall - Buildings and land	185,198	-	-	185,198
Fire hall - Building and land	386,982	-	-	386,982
Improvements - Rider house	52,595	-	-	52,595
Fire department - Vehicles and equipment	1,062,078	6,798	-	1,068,876
Machinery and equipment	42,176	-	-	42,176
Office furniture and equipment	235,794	-	-	235,794
Storm siren	16,400	-	-	16,400
Computer equipment	18,024	-	-	18,024
Total	<u>\$ 3,006,767</u>	<u>\$ 6,798</u>	<u>\$ -</u>	<u>\$ 3,013,565</u>

Note 3 - Capital Assets (Continued)

A summary of proprietary fund fixed assets at March 31, 2004 is as follows:

	Amount	Depreciable Life - Years
Land	\$ 260,982	-
Sewer building/system	<u>2,742,722</u>	40
Total	3,003,704	
Less accumulated depreciation	<u>(336,898)</u>	
Net	<u>\$ 2,666,806</u>	

Note 4 - Budget Information

The annual budget is prepared by the Township supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2004 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (statement of revenue, expenditures, and changes in fund balance - budget and actual - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a cost center/departmental basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Township Board is included in the additional information.

Expenditure budget overruns were as follows:

	Budget	Actual	Variance
General Fund:			
Public safety - Police department	\$ 80,700	\$ 82,032	\$ (1,332)
Public works - Highway and streets	33,000	45,593	(12,593)

Note 4 - Budget Information (Continued)

The budget overruns occurred as a result of preliminary financial information being used and year end accruals and reclassifications occurring subsequent to year end.

The Sewer Fund has an accumulated deficit of \$196,509; however, the fund has a total equity of \$2,131,031 and working capital of approximately \$688,725. The Township has established a long-term plan to eliminate this deficit, including revised sewer rates.

Note 5 - Landfill Agreement

In 1991, the Township entered into a host community agreement and lease with Onyx North America - Arbor Hills Landfill (Onyx), previously known as Browning-Ferris Industries (BFI) of Southeastern Michigan, Inc., covering a Township-owned landfill site. The Township receives quarterly lease renewal payments in return for leasing the site to Onyx for landfill operations. For the year ended March 31, 2004, host revenue was \$414,135.

During 2002, Gas Recovery Systems Inc. (GRS) revised the calculation used in determining the gas royalties to be paid to the Township. In response to the reduction of royalties, the Township filed a complaint seeking judgment against GRS for breach of the host community agreement. The Township is seeking full payment based on actual calculations of as much as \$60,000 per month. Both parties, GRS and the Township, have filed motions seeking partial or summary disposition. The motions were heard in September 2003. The liability and sanction motions have been resolved in favor of the Township, including the repayment of legal fees and interest. It is, however, anticipated that there will be an appeal of some, if not all, of the Court's rulings. If there are appeals, the Township intends to vigorously defend its position. No gas royalties were collected during the year ended March 31, 2004, pending outcome of the suit.

In June 1996, the Township also entered into a host community agreement with Onyx covering a composting site. Total revenue for the year ended March 31, 2004 relating to this agreement was \$51,346.

State and federal laws and regulations require that a final cover be placed on the landfill site when it stops accepting waste and that certain maintenance and monitoring functions be performed at the site for 30 years after closure. Any costs associated with closure or postclosure care are the responsibility of Onyx. The Township is responsible for closure and postclosure care costs only in the event that Onyx and its parent are unable to provide for these costs. The financial statements do not reflect any adjustments that might be necessary in the event Onyx is unable to provide for closure and postclosure care costs.

Note 6 - Construction Code Fees

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Surplus at April 1, 2003		\$	1,809
Current year construction code revenue			164,056
Related expenses:			
Direct costs	\$ (81,623)		
Estimated indirect costs	<u>(65,000)</u>		<u>(146,623)</u>
Current year excess revenue			<u>17,433</u>
Cumulative surplus at March 31, 2004		\$	<u>19,242</u>

Note 7 - Defined Contribution Retirement Plan

The Township provides pension benefits to certain employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the adoption agreement, the Township contributes 10 percent of certain employees' gross earnings. In accordance with these requirements, the Township contributed \$12,986 during the current year.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League Liability and Property pool program for claims relating to property, torts, errors and omissions, and workers' compensation and the Michigan Townships Participating Plan for claims relating to firefighter disability and life claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Michigan Townships Participating Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Note 9 - Long-term Debt - Sewer Fund

Original Construction

In May 1995, the Township, in cooperation with Washtenaw County (the "County"), approved and began construction of a sanitary sewage disposal system for individuals within the Hamlet of Salem. On May 1, 1995, the Township entered into a lease agreement with the County relating to the system. The County, under this agreement, is responsible for construction and financing of the system through a bond program with the Michigan Municipal Bond Authority. The original lease amount of \$2,255,000 is equal to the total proceeds that may be drawn by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs.

The Township will lease the system from the County and is required to operate, maintain, repair, insure, and manage the system for the County. Ownership of the system will be transferred at no cost to the Township after the bonds have been paid in full.

Note 9 - Long-term Debt - Sewer Fund (Continued)

As of March 31, 2004, the estimated future minimum lease payments are as follows:

2005	\$ 16,650
2006	132,175
2007	134,869
2008	132,506
2009	135,087
Remaining years	<u>1,167,999</u>
Total future minimum lease payments	1,719,286
Less portion representing interest	<u>(239,286)</u>
Total	<u>\$ 1,480,000</u>

The capital lease represents the financing of public improvements that benefited a specific district; this district is specially assessed, at least in part, for the cost of the sewer improvements. At March 31, 2004, the Township had approximately \$415,000 of special assessments receivable in the future.

2002/2003 Expansion

In May 2002, the Township entered into an agreement with the County to expand the Township's existing sewer system. The County, under this agreement, is responsible for construction and financing of the project through a bond program with the Michigan Municipal Bond Authority. The bond was issued in May 2002 for \$1,090,000. The Township has entered into a lease agreement equal to the total proceeds that will be drawn down by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs.

Note 9 - Long-term Debt - Sewer Fund (Continued)

As of March 31, 2004, the estimated future minimum lease payments are as follows:

2005	\$ 103,075
2006	101,200
2007	99,175
2008	97,015
2009	94,735
Remaining years	<u>953,829</u>
Total future minimum lease payments	1,449,029
Less portion representing interest	<u>(419,029)</u>
Total	<u>\$ 1,030,000</u>

The capital lease represents the financing of public improvements that benefited a specific district; this district is specially assessed, at least in part, for the cost of the sewer improvements. At March 31, 2004, the Township had approximately \$1,030,000 of special assessments receivable in the future.

Interest

Total interest incurred for the Township for the year approximated \$86,600.

Salem Township

Notes to Financial Statements March 31, 2004

Note 10 - Contributed Capital - Sewer Fund

The following is an analysis of contributed capital by source:

	Balance April 1, 2003	Additions	Balance March 31, 2004
Connection fees	\$ 1,458,180	\$ 64,840	\$ 1,523,020
Sewer system	459,520	-	459,520
Federal grants	400,000	-	400,000
Subtotal	2,317,700	64,840	2,382,540
Less depreciation on capital assets acquired by federal grants that reduces contributed capital	(45,000)	(10,000)	(55,000)
Total	<u>\$ 2,272,700</u>	<u>\$ 54,840</u>	<u>\$ 2,327,540</u>

Note 11 - Upcoming Reporting Change

For the year beginning April 1, 2004, the Township plans to adopt GASB Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total, on the full accrual basis of accounting. Enterprise Funds will no longer report capital contributions as a direct increase to equity. Information is not available to present pro forma data that would show the effect of this future change.

Additional Information



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To the Board of Trustees
Salem Township
Washtenaw County, Michigan

We have audited the general purpose financial statements of Salem Township for the year ended March 31, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of Salem Township. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

November 4, 2004

Salem Township

General Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Year Ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Licenses and permits	\$ 95,500	\$ 165,541	\$ 70,041
State sources	415,000	368,849	(46,151)
Landfill/Host community fees:			
Host fees	402,000	414,135	12,135
Compost host fees	35,000	51,346	16,346
Total landfill/host community fees	437,000	465,481	28,481
Local sources - Administrative fees	19,200	24,465	5,265
Interest income	45,000	31,603	(13,397)
Other revenue:			
Refunds and rebates	-	176	176
Charges for services	8,850	11,522	2,672
Cable television franchise	20,000	42,740	22,740
Other	17,500	16,422	(1,078)
Total other revenue	46,350	70,860	24,510
Total revenue	1,058,050	1,126,799	68,749
Expenditures			
General government:			
Township Board:			
Salaries	21,945	23,118	(1,173)
Payroll taxes	1,679	1,721	(42)
Other	1,350	40	1,310
Total Township Board	24,974	24,879	95
Supervisor:			
Salaries	29,051	29,051	-
Administrative assistant	32,560	32,734	(174)
Payroll taxes and benefits	4,713	4,707	6
Supplies and others	2,000	890	1,110
Total supervisor	68,324	67,382	942
Clerk:			
Salary	29,051	29,051	-
Deputy clerk	22,000	20,808	1,192
Payroll taxes and benefits	3,905	3,812	93
Printing and supplies	500	94	406
Equipment	500	-	500
Other	3,925	3,585	340
Total clerk	59,881	57,350	2,531

Salem Township

General Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued) Year Ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (Continued)			
General government (Continued):			
Treasurer:			
Salary	\$ 29,051	\$ 29,051	\$ -
Deputy treasurer	22,000	16,394	5,606
Payroll taxes and benefits	3,905	3,472	433
Tax statements	4,200	3,221	979
Equipment	500	100	400
Other	1,300	1,736	(436)
Total treasurer	60,956	53,974	6,982
Township hall and office:			
Salaries	7,500	2,909	4,591
Payroll taxes	574	180	394
Utilities	30,150	30,167	(17)
Equipment	2,500	2,586	(86)
Maintenance	35,150	32,643	2,507
Printing, postage, and supplies	28,500	22,253	6,247
Other	1,450	283	1,167
Total Township hall and office	105,824	91,021	14,803
Other:			
Election	1,800	878	922
Assessing	45,900	43,246	2,654
Zoning	53,597	54,583	(986)
Community development	123,013	124,476	(1,463)
Fringe benefits and insurance	48,500	56,915	(8,415)
Board of Review	1,277	1,685	(408)
Board of Appeals	795	780	15
Planning Commission	30,471	27,157	3,314
Accounting and audit	30,000	28,170	1,830
Legal service	376,200	359,888	16,312
Other	4,600	9,877	(5,277)
Total other	716,153	707,655	8,498
Total general government	1,036,112	1,002,261	33,851

Salem Township

General Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued) Year Ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (Continued)			
Public safety:			
Fire department	\$ 213,019	\$ 206,706	\$ 6,313
Police department	<u>80,700</u>	<u>82,032</u>	<u>(1,332)</u>
Total public safety	293,719	288,738	4,981
Public works - Highway and streets	33,000	45,593	(12,593)
Capital improvements	<u>100</u>	<u>10</u>	<u>90</u>
Total expenditures	<u>1,362,931</u>	<u>1,336,602</u>	<u>26,329</u>
Excess of Expenditures Over Revenue	(304,881)	(209,803)	95,078
Fund Balance - April 1, 2003	<u>3,306,851</u>	<u>3,306,851</u>	-
Fund Balance - March 31, 2004	<u><u>\$ 3,001,970</u></u>	<u><u>\$ 3,097,048</u></u>	<u><u>\$ 95,078</u></u>

Note: The departmental totals for expenditures reflect the budget as adopted by the Township Board. The line-item detail presented in this schedule is for additional analysis purposes.

Salem Township

Agency Funds Combining Balance Sheet March 31, 2004

	Tax Collection	Escrow	Trust and Agency	Total
Assets - Cash and investments	\$ 87	\$ 180,570	\$ -	\$ 180,657
Liabilities				
Due to General Fund	\$ -	\$ 7,571	\$ -	\$ 7,571
Refundable deposits	-	172,999	-	172,999
Due to other governmental units	87	-	-	87
Total liabilities	\$ 87	\$ 180,570	\$ -	\$ 180,657

Salem Township

Schedule of Indebtedness March 31, 2004

Payment Date	Principal Due	Interest Rate (Percent)	Interest Due	Total Payment	Fiscal Year Total	Remaining Principal Balance
Enterprise Fund - Sewer Fund						
1995 Sewer System Capital Lease						
Date of issue - October 3, 1996						
Amount of issue - \$2,255,000						
04/01/2004 *	\$ -	2.25	\$ -	\$ -		\$ 1,480,000
10/01/2004			16,650	16,650	\$ 16,650	
04/01/2005	100,000	2.25	16,650	116,650		1,380,000
10/01/2005			15,525	15,525	132,175	
04/01/2006	105,000	2.25	15,525	120,525		1,275,000
10/01/2006			14,344	14,344	134,869	
04/01/2007	105,000	2.25	14,343	119,343		1,170,000
10/01/2007			13,163	13,163	132,506	
04/01/2008	110,000	2.25	13,162	123,162		1,060,000
10/01/2008			11,925	11,925	135,087	
04/01/2009	110,000	2.25	11,925	121,925		950,000
10/01/2009			10,688	10,688	132,613	
04/01/2010	115,000	2.25	10,687	125,687		835,000
10/01/2010			9,394	9,394	135,081	
04/01/2011	115,000	2.25	9,393	124,393		720,000
10/01/2011			8,100	8,100	132,493	
04/01/2012	120,000	2.25	8,100	128,100		600,000
10/01/2012			6,750	6,750	134,850	
04/01/2013	120,000	2.25	6,750	126,750		480,000
10/01/2013			5,400	5,400	132,150	
04/01/2014	125,000	2.25	5,400	130,400		355,000
10/01/2014			3,994	3,994	134,394	
04/01/2015	125,000	2.25	3,993	128,993		230,000
10/01/2015			2,588	2,588	131,581	
04/01/2016	130,000	2.25	2,587	132,587		100,000
04/01/2017			1,125	1,125	133,712	
04/01/2017	100,000	2.25	1,125	101,125	101,125	-
	<u>\$ 1,480,000</u>		<u>\$ 239,286</u>	<u>\$ 1,719,286</u>	<u>\$ 1,719,286</u>	

* April 1, 2004 payment made in March 2004.

Salem Township

Schedule of Indebtedness (Continued) March 31, 2004

Payment Date	Principal Due	Interest Rate (Percent)	Interest Due	Total Payment	Fiscal Year Total	Remaining Principal Balance
Enterprise Fund - Sewer Fund						
2002 Sewer System Capital Lease						
Date of issue - May 21, 2002						
Amount of issue - \$1,090,000						
05/01/2004	\$ 60,000	3.00	\$ 21,988	\$ 81,988		\$ 1,030,000
11/01/2004			21,087	21,087	\$ 103,075	
05/01/2005	60,000	3.25	21,088	81,088		970,000
11/01/2005			20,112	20,112	101,200	
05/01/2006	60,000	3.50	20,113	80,113		910,000
11/01/2006			19,062	19,062	99,175	
05/01/2007	60,000	3.70	19,063	79,063		850,000
11/01/2007			17,952	17,952	97,015	
05/01/2008	60,000	3.90	17,953	77,953		790,000
11/01/2008			16,782	16,782	94,735	
05/01/2009	60,000	4.00	16,783	76,783		730,000
11/01/2009			15,582	15,582	92,365	
05/01/2010	60,000	4.15	15,583	75,583		670,000
11/01/2010			14,338	14,338	89,921	
05/01/2011	60,000	4.25	14,337	74,337		610,000
11/01/2011			13,062	13,062	87,399	
05/01/2012	55,000	4.35	13,063	68,063		555,000
11/01/2012			11,866	11,866	79,929	
05/01/2013	55,000	4.45	11,866	66,866		500,000
11/01/2013			10,642	10,642	77,508	
05/01/2014	55,000	4.55	10,643	65,643		445,000
11/01/2014			9,391	9,391	75,034	
05/01/2015	55,000	4.65	9,391	64,391		390,000
11/01/2015			8,112	8,112	72,503	
05/01/2016	55,000	4.75	8,113	63,113		335,000
11/01/2016			6,806	6,806	69,919	
05/01/2017	55,000	4.85	6,806	61,806		280,000
11/01/2017			5,472	5,472	67,278	
05/01/2018	55,000	4.90	5,473	60,473		225,000
11/01/2018			4,125	4,125	64,598	
05/01/2019	55,000	5.00	4,125	59,125		170,000
11/01/2019			2,750	2,750	61,875	
05/01/2020	55,000	5.00	2,750	57,750		115,000
11/01/2020			1,375	1,375	59,125	
05/01/2021	55,000	5.00	1,375	56,375	56,375	60,000
	<u>\$ 1,030,000</u>		<u>\$ 419,029</u>	<u>\$ 1,449,029</u>	<u>\$ 1,449,029</u>	

Statistical Section

To the Board of Trustees
Salem Township
Washtenaw County, Michigan

We have audited the general purpose financial statements of Salem Township for the year ended March 31, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole.

The statistical data on page 26 is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of Salem Township. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

November 4, 2004

Salem Township

Schedule of Taxes Levied, Collected, and Returned Delinquent 2003 Tax Roll March 31, 2004

Salem Township Taxable Value: \$285,866,162

	Final Levy	Returned Delinquent	Taxes Collected	Percent Collected
Washtenaw County tax	\$ 1,595,663	\$ 74,076	\$ 1,521,587	95
Community Colleges:				
Washtenaw	297,242	7,926	289,316	97
Oakland	226,244	7,019	219,225	97
Schoolcraft	120,372	5,049	115,323	96
School Districts:				
Plymouth-Canton	830,163	17,207	812,956	98
Northville	442,109	54,013	388,096	88
South Lyon	1,967,696	96,807	1,870,889	95
Ann Arbor	132,397	6,673	125,724	95
Ann Arbor Public Library	21,437	900	20,537	96
State Education	1,429,325	46,299	1,383,026	97
Intermediate School Districts:				
Washtenaw County	33,587	1,409	32,178	96
Oakland County	558,222	18,456	539,766	97
Wayne County	383,296	11,670	371,626	97
Salem-South Lyon Library	265,251	8,489	256,762	97
Total	<u>\$ 8,303,004</u>	<u>\$ 355,993</u>	<u>\$ 7,947,011</u>	96

November 4, 2004

To the Members of the Township
Board of Trustees
Salem Township
P.O. Box 75002
9600 Six Mile Road
Salem, MI 48175

Dear Board Members:

Reportable Conditions

In planning and performing our audit of the financial statements of Salem Township for the year ended March 31, 2004, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters noted are only those that came to our attention, and had our procedures in internal control related matters been more extensive, other matters may have been noted.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

During the course of our audit, we noted that monthly reconciliations were not being performed, including:

- Bank accounts were not reconciled to the general ledger on a monthly basis.
- The “receipt by receipt type” report generated by the cashier when cash is received was not reconciled to the general ledger “posted transaction report” on a monthly basis.
- The sewer accounts receivable listing was not reconciled to the general ledger on a monthly basis.

During the year, it was determined that the accounts receivable module and the general ledger module of the computer system were not communicating properly, therefore creating difficulties in reconciling the cash receipts and sewer accounts. The Township has established a manual approach to correct this problem. The treasurer’s office will compile the monthly activity information and provide the information to the clerk’s department for proper accounting. As an internal control, we recommend the clerk’s department closely review this information, since the treasurer’s office will be collecting the cash and preparing the summary of activity.

We recommend the Township review the need for additional accounting assistance to work with both the clerk’s and treasurer’s office to ensure that the books and records of the Township are in order and reconciled monthly. Recent plans to use outside contractors and deputies have not resulted in accounting records that are accurate and reconciled on a timely basis. While we recognize the financial constraints that the Township is under at the current time, we feel that the risk of having errors go undetected and the need for good financial information on a current basis should receive high priority.

Policies and Overall Internal Controls

As a result of testing performed on the Township’s internal control system and discussions with Township personnel, we noted that the accumulation and use of sick and vacation time is tracked primarily by the department heads. We noted that not every department head is calculating vacation time on the same basis. The accumulation of sick and vacation time should be standardized so as not to give preferential treatment to individuals based on the department they work for.

November 4, 2004

During our audit, we noted that there were several errors in the calculation of payroll. Some of these errors include the following: an employee had certain payroll taxes withheld that were not required; a payroll report was generated by the outside payroll company that included a trustee after the trustee was no longer on the Board of Trustees; and other clerical errors throughout the year. These errors were usually identified by a thorough review by the clerk's and treasurer's departments. The Township should work with their outside payroll service to establish pro-active procedures so that these types of errors do not occur, thereby reducing the time needed to re-issue payroll check runs.

Revenue Sharing

As we commented on in last year's letter, the slowdown in the State's economy is now directly affecting the General Fund. State-shared revenue accounts for approximately 33 percent of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems, revenue-sharing payments for the State's fiscal years ended September 30, 2001, 2002, 2003, and 2004 were less than originally projected.

With the major changes in revenue sharing occurring, we realize that the Township is regularly seeking information on projected future revenue-sharing payments. To assist the Township in projecting state-shared revenue payments, the Michigan Department of Treasury Website is located at <http://www.michigan.gov/treasury>. From this starting point, you can drill down and obtain the estimated revenue-sharing payments projected for your Township.

We would like to thank the Township and all those involved with the audit process for their assistance. If any questions arise upon reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the continued opportunity to be of service.

Very truly yours,

Plante & Moran, PLLC



Michael J. Swartz

MJS:bb